The "shift" to Asia – The "new generation" of Free Trade Agreements of the European Union

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Bence Tamassy

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Abstract

The „shift” to Asia

The “new generation of Free Trade Agreements” of the European Union

Bence Tamassy, MPP 2009

The EU has currently turned its attention towards the Asian countries instead of seeking a multilateral liberalization in WTO. In 2006 the European Union issued a paper entitled *"Global Europe: Competing in the world"* and it soon started talks with *Korea*, *India* and the *ASEAN*. This paper wants to find the reasons of this *policy shift*. The question will also be raised whether that shift means a change in the political economy of the EU trade policy or it is a natural answer for the changes of the international environment.

Contents

I. Introduction

The European Union (EU) is the *largest single market in the world*, representing the interests of 450 million people. Furthermore, the EU is the world's largest exporter of goods and services and the second largest importer. *It accounts for 19% of the world's trade* while the other trading ″giants″ – the USA, China, Japan and the Association of Southeast Asian Nations– each account for less than half of the EU's share.[1]

As a trading hub, the EU has sought free trade agreements (FTAs) with many countries from different continents; thus, it *currently has the most FTAs in effect* **–** even more than the US is engaged in. Moreover, the EU provides market access for a large number of developing countries unilaterally, within the framework of the Everything-But-Arms (EBA) Initiative and the Generalized System of Preferences (GSP). At this point, only nine WTO members conduct their trade with the EU on a purely Most-Favored-Nation basis[2]; however, these nine countries consist of most of the largest trading powers, such as the US, China, Japan and Korea, which means that *74% of the total volume of trade conducted with the EU occurs under the MFN regime*.[3]

Although the rate of MFN as designated by the EU for developed countries is quite low nowadays, given the competitive circumstances of our globalized world, a difference of even 1-2% in tariff rates can be crucial to the importers. Besides, the so-called ″*Singapore issues*″ (policies on trade as they relate to investment and competition, as well as transparency in government procurement and facilitation of trade) have been put aside on the WTO level. Thus, there is obviously room for improvement with regard to the conditions of trade.

Based on the above, and realizing the proliferation of FTAs in Asia, in 2006 the European Union issued a paper entitled ″*Global Europe: Competing in the world*″ as an answer to the new

1 http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_122531.pdf
2 WTO 2007, page 27
3 WTO 2004, page 22

challenges faced by the EU in the area of world trade. The paper argues that Europe should accelerate access for its companies to third-country markets and urges the EU to enhance competitiveness within the Union.

In addition, the paper calls for a "*new generation of FTAs*", emphasizing that "FTAs must be a stepping stone, not a stumbling block for multilateral liberalization."[i] It also states that the current EU FTAs have supported neighborhood and development objectives in trade interests, especially in Asia, and it goes on to assert that the key economic criteria for new FTA partners should be based on market potential (the size of their respective economies and potential for growth), and the level of protection against EU export interests (tariffs and non tariff barriers).

With respect to its stated objectives, it seems that the 2006 paper represents a *break with the pro-multilateral and pro-development approach* of the EU trade policy and reveals a more aggressive and trade-orientated approach both externally and internally. Nonetheless, interestingly enough, the EU has not initiated negotiations for FTAs with China, Japan, or the US, even though agreements with these countries could yield a considerable welfare impact given their size in the world economy. Instead, it has begun negotiations with *Korea, India* and the *ASEAN*. According to impact assessment studies, an FTA with Korea that liberalized all trade in goods and services would deliver an increase of 0.05% to the GDP of the EU. In case of ASEAN, the expected increase would be 0.1%, while a similar FTA with India would bring an additional 0.025%, even under a very ambitious FTA. [4]

However, the potential gains of the FTAs would be quite modest, especially as it remains unlikely that a very comprehensive FTA will be concluded with ASEAN or India, so there are other aspects to contemplate. Indeed, all of these countries have been developing rapidly and are now ready to play a bigger role on the global plane. Apart from India and Korea, Indonesia is the *member of the G-20* which seems to have increased its importance currently. Nevertheless, it does not give the full answer why the EU turned its attention towards the Asian countries instead of seeking a multilateral liberalization in WTO. This paper wants to find the reasons of this policy shift. The question will also

[4] This computable general equilibrium (CGE) model suffers from several limitations. It neglects longer-term dynamic effects from FDI and technology transfer (decreasing effect) and it does not cover rules of origin and a bunch of non-tariff and regulatory barriers.

be raised whether that shift means a *change in the political economy* of the EU trade policy or it is a *natural answer for the changes* of the international environment**.**In order to find the answer, the author will use the theoretical framework of Dani Rodrik[5] to present the elements or circumstances that brought about the trade policy.

II. Literature Review

During the past few years, there have been many research papers on the latest developments in trade policy. Among those, the papers of the European Centre for International Political Economy (ECIPE) and the Centre for Economic Policy Research (CEPR) have been especially influential. *Simon J. Evenett*, who is a professor at the University of St Gallen as well as a researcher for the CEPR, published his paper entitled "*The trade strategy of the European Union: time for a rethink?*" in April 2007. Essentially, Evenett asserts that European trade policy has not shown much success over the preceding decade, and he says it is high time to rethink the ends and means of existing EU trade policies. He also reviews the evolution of European trade policy since the establishment of the WTO (1995) and argues that the Global Europe paper represents a shift back to its 1996 form.[6]

Evenett further expresses a considerable amount of skepticism about the proposed FTAs with India, Korea and the ASEAN nations. In the case of India, his opinion is based on current FTAs where India has sought a large number of exceptions[7], and he posits that the relative weakness of the central government of India may also support this skepticism. In addition, regarding the Korea-EU negotiations, he states that Korea's manufacturing prowess, as combined with its aggressive pursuit of its interests in the industries of automobiles, textiles and electronics, could cause difficulties for certain member states of the EU. Moreover, as there are several significant economic differences among the ASEAN nations and some of those countries (e.g., Thailand and Myanmar) even ruled by non-democratic, military governments, Evenett points out that he does not see much of a chance for an ASEAN-wide FTA which would considerably cut the barriers that European businesses currently

[5] Dani Rodrik, 1994
[6] Evenett, 2007, page 32
[7] India-ASEAN FTA: 840 items on a sensitive list down from an initial demand of 1400 items

must confront. [8]

Thus, according to Evenett, instead of entering into risky trade negotiations, the EU should *revert to multilateral trading system*. EU should face the reality that the bipolar trading system has become multi-polar with the emergence of at least three new trading powers (India, China and Brazil). An area of mutual interest with them can be the stronger and broader national treatment disciplines. As for provisions EU sought in the past (Singapore issues, labor and environmental standards), he suggests it should not disengage from WTO simply because developing countries have refused to support them. According to Evenett, alternative combinations, incentives and cooperation with international organizations may help to promote these objectives.[9]

Another policy paper relevant to the matter of trade in the EU was authored by *Razeen Sally*, the director of the European Center of International Political Economy. In his paper, which was published in 2007 under the title ″*Looking East: The European Union's new FTA negotiations in Asia*″, Sally he explains the principal characteristics of the EU's FTA policy, especially in comparison with those of the United States. Specifically, he indicates that since the EU always links its non-trade goals to its trade agreements, those agreements usually contain provisions relating to issues such as climate change, democracy and human rights. The EU considers the regulation of risk in international trade very important; therefore, it takes non-scientific considerations into account[10] whereas the US has a more narrow approach which is basically covered by agreements under organizations such as the WTO, Sanitary and Phytosanitary Measures (SPS) and Technical Barriers to Trade (TBT). Nevertheless, the USA goes further than the EU in the areas of services, investment and Intellectual Property Rights (for example high protection of pharmaceuticals products or investor's right to directly dispute the alleged violation in NAFTA)   Finally, according to Sally, neither the EU nor the US tends to include disciplinary measures to regulate antidumping procedures or agricultural

[8] Evenett, 2007, III.5

[9] ibid., page 41

[10] Precautionary principle

subsidies.[11]

Later in his study, Sally also sees a contradiction between the objectives of a Global Europe – with its goal of achieving economic strength through the WTO plus additional FTAs – and the selection of its future FTA partners, especially as the current Asian FTAs have not really shown the kinds of characteristics that would contribute significantly to the economic strength of the EU. In his view, the best choice among the proposed FTAs is Korea, for a couple of reasons. First, he claims that Korea is *the most credible FTA player in Asia* given the content of its FTAs (quite strong commitments comparing to other Asian FTAs, such as Japanese EPAs). Beyond that, Sally predicts that the EU could expect at least some level of parity along the lines of the concessions made by Korea to the USA under that FTA. Nevertheless, he warns that significant gaps would be expected, especially with respect to agriculture.[12]

Similarly to Evenett, Sally does not see hope for an ASEAN-wide FTA. He argues that since the ASEAN is not the EU, *it does not really work as a community*. With the exception of Singapore, the other countries are not open to removing non-tariff and regulatory barriers. Therefore, he proposes that the EU should give up on negotiating with ASEAN collectively, and instead go for a strong EU-Singapore FTA while seeking greater regulatory cooperation with the rest of ASEAN.[13] Likewise, Sally recommends the same approach to India, based on that country's rather disappointing FTA record[14], along with the *inflexible and defensive positions* it tends to take within the WTO.

Generally, Sally argues that the new EU-Asia FTAs have contributed to the undermining of *relatively simple, transparent, predictable and non-discriminatory multilateral trade rules*, and he asserts that unilateral liberalization and domestic structural reforms would promote competitiveness much more. [15]

Beyond that, it is important to mention Sally's stance towards China. Specifically, he posits that the EU should give China market-economy status and conclude a framework for trade-related regulatory cooperation with that nation. This cooperation, he says, should focus on trade issues and

[11] Sally, 2007, page 8
[12] Sally, 2007, page 15
[13] Sally, 2007, page 17
[14] India excludes agricultural trade and applies very restrictive rules of origin in its current FTAs
[15] Sally, 2007, page 21

should not be linked to the EU's non-trade objectives, in order to encourage China's engagement in the WTO. [16]

Another significant piece of work to mention is John Peterson's paper, "*EU Trade Policy as Foreign Policy – Does Strategy plus Activity=Strategic Action.*" In the beginning of his article, Peterson cites the differing opinions of trade purists and foreign policy specialists. While the latter claim that trade should be regarded as a principal foreign policy tool, the former decline to link foreign policy objectives to trade issues. Essentially, he raises the question as to whether the EU can effectively commit itself to "*strategic action*"- or coordinated action in the pursuit of its defined trade goals.

Peterson claims that EU definitely does have the capacity for strategic action and has been trying to employ it in several cases (Iran, the Balkans, and least-developed countries). However, as the trade policy is implemented, it is used primarily to uphold European economic interests, instead of providing a broader, vision-inspired perspective on what the world should look like. Here, he brings forth the example of the EU's Common Agricultural Policy (CAP) as an example of a stumbling block to the development of the trade system.[17]In his view, coordination between the Common Foreign and Security Policy (CFSP) and trade policy is also lacking.

Patrick Messerlin, one of the most influential scholars of European trade policy, also analyzed the recent shift of the European trade policy in his own paper. The starting point of his research is the Global Europe Communication and its turn towards bilateral trade agreements. Messerlin begins by debating the popular concept of the "*rise of regionalism*", claiming that the increasing number of Preferential Trade Agreements (PTAs)[18] are misleading for several reasons including the structural change from regional to bilateral agreements; intra-European agreements; and increased WTO membership among nations. Moreover, Messerlin points out, there is no bilateral agreement between any of the ten largest economies, and there are only three bilateral agreements between

[16] ibid., page 22

[17] Peterson, 2007, page 23

[18] 211 as of September 2006

nations in the top-10 and top-20 in terms of their economies. [19]

Interestingly, Messerlin also makes a comparison between bilaterals looking for a ″*market opening*″ or for ″market preferences″. In the former case, he explains, the signatories apply low tariffs on goods imported from the ″rest of the world″ (countries other than the partner country) while enforcing domestic pro-competitive regulations on services and investment, and thereby contributing to worldwide trade liberalization (The FTAs concluded by Chile or Singapore belong mostly to this group.) [20]Conversely, in the latter case, the signatories apply high tariffs to the rest of the world while maintaining anti-competitive domestic regulations on services and investment. Obviously, these agreements present obstacles to a global opening. Messerlin concludes that the comparison that the EU FTAs under negotiation or consideration tend to be biased towards market preferences; hence, they *present risks* in the world trade regime as they induce customers to buy goods from inefficient partners rather than goods and services produced in the rest of the world.[21] The author also mentions a diplomatic challenge, namely if trading partners were willing to open their markets to European exporters, why would they then keep them closed to exporters from the rest of the world?[22]

Thus, what does Messerlin suggest? Specifically, he proposes that an alternative approach be taken in the Doha Round of trade negotiations, taking into account the interest of the European business community and giving it serious consideration. According to Messerlin, this interest calls for ″*no single industrial tariff above 15 percent at the end of the implementation period of the Doha Round*″. He claims that this target is not only economically sound and would considerably increase the access of European exporters to the markets of emerging countries, but it also would represent a more cautious form of liberalization which could gain the support of the above group. The Swiss coefficient formula he suggests shows that emerging countries would exhibit average bound tariffs from 6.7 to

[19] Messerlin,2007, page 7
[20] ibid., page 6
[21] ibid., page 6
[22] ibid., page 17

14.7 percent, with a maximum bound tariff of 50 percent, but with very few tariffs higher than 30 percent in the case of industrial tariffs.[23]

Messerlin also urges to change the EC position in the WTO agricultural negotiations. He claims that the current EC proposal which means an obstacle in the Doha Round negotiations represent the interests of the producers of only a few largely-subsidized products and basically it protects food producers more than farmers. [24]Therefore, "rebalancing" of the current proposal is necessary which would cut the high tariffs more and the low tariffs less.

As a conclusion, Messerlin calls on the EU to take a *long-term view* of the world trade regime and show its capability for leadership. In his view, after closing the Doha Round, a series of future rounds of liberalization are coming up, and a slow but perennial multilateral reduction in tariffs would be more beneficial for both the world trade system and European industries than the proliferation of bilateral agreements.

In sum, the bulk of the studies analyzed for this paper indicate that most of the authors are critical to the current EU approach of seeking various FTAs instead of taking a leadership role as a flag-bearer for further trade liberalization under the auspices of the WTO. The reason for the prevailing criticism could lie in the idea presented by Dani Rodrik, who was searching for an answer as to why governments have tended not to reform their policies even when doing so would increase the overall size of the economic pie. Rodrik also questioned that even if they have goals other than maximizing national income, *why do governments so often choose more inefficient policies (like trade restrictions) over less inefficient ones (such as direct subsidies)*.

In his book about the political economy of trade, Rodrik attempts to answer his questions. He provides an analysis of the elements inherent in the political economy model of trade, positing that the formulation of trade policy results from the *interplay of various economic sectors*. In addition, he distinguishes between the "demand" and "supply" sides of trade policy, explaining that while individual preferences and interest groups comprise the demand side, the preferences of policymakers

[23] ibid., page 10
[24] ibid., page 14

and the institutional structure of the government represent the supply side. The former creates pressure on the latter, which on the other hand has its own interests and agenda. The interplay between both sides results in policy outcomes.

Most of the cited authors also share the *liberalist view of international relations* which characterized by the following basic assumption: economic interests are more important than geopolitical concerns; state officials act rationally on behalf of state's economic interests and states have an incentive to create international institutions in order to find a common solution for the problem. The later analysis will challenge this view and assess whether one can rather see the latest proliferation of FTAs in the region as EU's reaction to the US trade policy and basically a reflection of the realist theory of international relations[25].

III. Methodology

Qualitative methods will be applied in the analysis of the issue central to this research. Furthermore, primary and secondary sources describing and analyzing the political economy in terms of trade policy formulation will be used. Relevant documents such as annual reports, statistics, legal texts, books, newspapers, journals and other types of publications will also be consulted, studies and included in this paper, and a review of relevant literature will be undertaken to substantially validate the claim

IV. Overview of the EU trade policy

a. Free trade agreements

In 1957, under the aegis of the *Treaties of Rome*, six Western European countries agreed to create a customs union. With the elimination of internal tariffs, they achieved the goals of the Treaty within the ensuing 10 years, and the proposed *customs union* began operating. Soon thereafter, the members of the customs union doubled, and by the end of the 1980's the 12-member European

[25] According to *realism*, nation-states are unitary, geographically-based actors in an anarchic international system with no authority above capable of regulating interactions between states as no true authoritative world government exists. A state acts as a rational autonomous actor in pursuit of its own self-interest.

Community faced new challenges following the collapse of Soviet dominance in Eastern Europe. The first trade agreement with post-socialist countries was then signed in 1988, followed soon by the so-called Europe Agreements.

As *Claire Bowers* argues in her paper, trade was a tool for full integration in these cases, as the partner countries undertook to apply the ″*acquis communitaire*″ which is the law of the European Union. This also refers to the harmonization of trade and customs law. Consequently, the Agreements reflect the legislation of the EU, both in the field of trade in goods and trade in services. Most likely, this difference of leverage was the reason why the EU sought bilateral agreements with these countries instead of signing an umbrella agreement with the CEFTA (Central European Free Trade Area). That is to say, the EU conducted a "*hub and spoke approach*" in these agreements, meaning that the EU was the hub and each of the partner countries constituted an individual spoke on the wheel.[26]

After signing the above agreements, the EU turned its focus to the *Mediterranean countries*. As these countries would not be considered likely candidates to join the European integration, the EU followed a different path in their case. One particular book which provides a great deal of insight into these agreements is *The Euro-Mediterranean Partnership: Political and Economic Perspectives,* edited by Richard Gillespie. In that book, Gillespie posits that the most important event in this relationship was the Barcelona Euro-Med conference in 1995, during which the EU proposed two dimensions of the Partnership: the establishment of a zone of political stability and security; and the establishment of a Euro-Mediterranean Free Trade Area.

Although the Mediterranean countries did not seek accession the EU, the Association Agreements concluded with them are nevertheless very comprehensive and cover political, social and cultural fields, as well. Besides the trade matters, they contain a chapter dealing with political dialogue, social and cultural matters, and the environment. The EU insisted on the adoption of its norms in four fields: standards and specifications; rules of origin; intellectual property rights; and competition policy. Meanwhile, the Egyptian business community referred to these items as the ″Four

[26] Bowers, 1997, page 13

Ghosts″ as they feared that the regulations in those areas would constitute non-tariff barriers hindering the flow of Egypt's exports to the EU[27].

Sustainable and balanced economic and social development is also acknowledged by the signatories to the Euro-Mediterranean Initiative as an important objective of their envisaged partnership[28]. These objectives are also reflected in the specific agreements with each country.

It certainly would seem worthwhile to examine the nature of trade relations between the EU and its former colonies. However, it turns out that the parties have generally been less than pleased with the conclusions of the negotiations, considering that *the further we go from Europe, the more the differences increase*.

In 1975, the European Communities signed the first Lome Agreement with the former *African, Caribbean* and *Pacific colonies* of its members. As it gave preferential access to certain products from 77 countries, it was constantly challenged by other non-ACP developing countries (e.g., in the EC-Banana case). Based on a WTO waiver, the Lome agreement was subsequently replaced by the broader-scope Cotonou agreement. As the waiver expired on 31 December 2007, the preferential countries had a choice to either return to a GSP system or sign an FTA called an ″Economic Partnership Agreement″ with the EU.

A return to GSP is not really an option as it would provide market access under worse terms than those included in the Cotonou Agreement. On the other hand, the EU intends to conclude Economic Partnership Agreements (EPAs) which meet WTO standards, and they should cover *″substantially all trade″*, meaning at least 90%. Moreover, in the case of trade in services and investments, they would go even further. For these reasons, some scholars are concerned that signing EPAs would lead to another era of exploitation.[29] To illustrate these views, the opinion of Sandor Szepesi is relevant here: "If concluded, EPAs will constitute an *unprecedented reciprocal free trade*

[27] Gillespie, 1997, page 82
[28] Barcelona Declaration, 1995:137
[29] Brown, 2005

agreement between the world's largest single market and some of the poorest economic regions."[30] There are additional concerns that the agreements would further constrain the policy space of developing countries. This notion is encapsulated in the words of Nobel Laureate Amartya Sen: *"Equal rules for unequal partners constitute unequal rules"*.[31]

Naturally, the EU Commission has a totally different opinion on the matter. Responding to critics, the commission issued a paper in January 2008 called *"Six common misconceptions about Economic Partnership Agreements (EPAs)"*. The central premise of the commission's argument is that a decrease in revenue due to low tariffs actually helps developing countries to restructure their fiscal policies towards sales, excise or other revenue taxes which do not suppress economic activity. The argument is pretty much the same in the case of the so-called *"Singapore issues"*. The EU Commission essentially states that opening the telecommunication, banking and construction industries are the backbone of a growing economy, and this claim is based on investment reports. It adds that the EPAs or agreements contributing to *"development"* and *"regional integration"*.

Promoting regionalism is an important part of the EU agenda. In that regard, the EU has prepared different agreements for six regions (West Africa, Eastern and Southern Africa, Central Africa, SADC, the Caribbean and the Pacific), and so far, only one has been signed with CARIFORUM. This approach can be problematic, though. Oli Brown raises the example of Francophone West Africa, where the EU encouraged rapid regional integration in the 1989s and 1990s which ultimately failed as it *only covered the free movement of goods but not people* and also lacked a *redistributive wealth mechanism* which would have helped to decrease the adjustment costs of trade liberalization.[32]

The EU has already concluded comprehensive, WTO+FTAs with two countries from the

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30 Szepesi, S. 2004

31 Cited by Eveline Herfkens, High-Level Parliamentary Seminar on Policy Coherence for Development, OECD, Paris, France, October 2, 2003

32 Brown, 2005, page 14

Americas, namely Mexico and Chile. The Global Agreement between Mexico and the EU went into force in 2000 and proudly hailed as "*the first, the fastest and the best*" by Pascal Lamy, who was at that time the EU commissioner and is now the Director General of the World Trade Organization. The EU-Mexico FTA was completed within just a year, and the ratio of the liberalization vastly exceeded the generally expected 90%. However, it was the first transatlantic agreement signed by the EU, and it was not very different from the above regional agreements as it was also targeted to cover not only trade-related issues but to promote regional development. In addition, the agreement consists of provisions related to cooperation and political dialogue. The main incentive of the EU to enter the agreement was to avoid the likely trade diversion created by the North American Free Trade Agreement (NAFTA) and ensure the benefits outlined in the "Singapore issues" (investments; competition; and transparency in public contracting and trade facilities) which are blocked in the WTO.[33]

If one goes through the past decades of EU FTA policy, it must recognize that the EU FTA system cover almost all continents except of Asia. Although, there are significant differences among the agreements, the EU was able to enforce its regulatory model during the talks to a large extent. Moreover, the American FTAs show that it was able to react very soon to the changes of the external factors (loss of market share because of NAFTA and US-Chile FTA).

b. The role of EU in the WTO

The European Union and its Member States became the *founding members of the WTO in 1995*. In the Uruguay round of multilateral trade negotiations that just finished prior the establishment, the EU agreed to bind all of its tariff lines. Further, it made commitments on the use of tariff-quotas on the imports of agricultural products and agreed to cut the total financial support for agriculture[34] and both the value and volume of export subsidies for agricultural products. In case of non-agricultural goods, the EU also agreed to cut the average rate of duty from 6.9% to 4.1%. It also made

[33] Reveles-Rocha L., 2007

[34] Aggregate Measure of Support

commitments on services with the exception of a few sectors. Thus, especially in case of agricultural goods, the EU was ready to re-consider its former policies and adjust them to the conditions requested by the other trading nations.

After 1995, the EU *continued its pro-liberalization policy in the WTO* and tried to expand its scope to new areas. These new areas were competition policy, investment policy, trade and the environment, intellectual property rights and technical barriers to trade. The members established permanent working groups on four issues: transparency in government procurement, trade facilitation (customs issues), trade and investment, and trade and competition, therefore they are known as *"Singapore issues"*. However, the EU and also Japan and Korea tried to push the organization into regulate these issues on multilateral level, the developing countries expressed their dissent with the developments claiming that they were introduced too fast and were painful for their economies. This disagreement determined the destiny of the next three Ministerial Conferences (Seattle, Doha and Cancun).

According to Professor Evenett[35], the Seattle Ministerial Conference in 1999 brought a shift in the European trade policy. The conference which was to be a launch of a new *"Millennium round"* of trade negotiations were quickly overshadowed by *massive and controversial street protests* on the streets. The scale of the demonstrations—even the lowest estimates put the crowd at over 40,000—dwarfed any previous demonstration in the United States against a world meeting of any of the organizations generally associated with economic globalization.[36] Among the most notable participants were national and international NGOs (especially those concerned with labor issues, the environment, and consumer protection), labor unions, student groups, religiously-based groups, and anarchists. These growing sentiments of the civil society may lead the EU to *re-consider its pro-liberalization trade policy*.

The *"Doha Development Agenda"* began in November 2001 at a WTO Ministerial Conference in Doha, Qatar, committing all countries to negotiations opening agricultural and manufacturing

[35] Evenett, 2007, page 21-22
[36] The events are sometimes referred to as the Battle of Seattle (wikipedia.org)

markets, as well as trade-in-services (GATS) negotiations and expanded intellectual property regulation (TRIPS). The intent of the round, according to its proponents, was to make trade rules fairer for developing countries. At the Conference, the EU argued for a shorter (preferably three year) negotiating timetable and try to push further the Singapore issues.

The next two years brought a significant development which largely contributed to EC's position on agricultural matters and indirectly contributed to the failure of the round. This development was the agreement on the budget of Common Agricultural Policy (CAP) until 2013. The proponents of the CAP sought and received assurances that the EC's trade negotiating mandate on agricultural matters would go no further than the reforms agreed in the revised CAP budget. The 2004 and 2007 enlargement of the EU strengthened this negotiating constraint even more as the 12 new members of the community (most of them with large agricultural sector) must sit out 10 years transition periods before they become full members of the CAP. As they would obviously like to benefit from the present scheme, they are not interested in its reform[37].

After the failure in Doha, there was a widespread hope among the supporters of multilateral trade liberalization that the next Ministerial Conference held in Cancun in 2003 would get the negotiations back on the right track. The hope was based on the new proposal focusing on agriculture presented by the EC and the US.

Nevertheless, EC undertook to decrease its level of protection, *a newly emerged group* consisted of 22 developing countries (led by India, China, Brazil and South Africa) rejected the proposal. Moreover, the African group of developing countries formally objected to the launch of the negotiations on any of the four Singapore issues[38].

The round brought two major impacts on EU trade policy which contributed to the current shift to FTAs. Although, with the acceptance of the July 2004 package[39], some progress was achieved in the area of trade facilitation, the drop of the Singapore issues from the multilateral table meant that such as the EU service industries cannot expect liberalized WTO investments and competition rules in

[37] Peterson, 2007, page 23
[38] Evenett, 2007, page 25
[39] Under the mandate of the so-called ″July package″, Members are directed to clarify and improve GATT Article V (Freedom of Transit), Article VIII (Fees and Formalities connected with Importation and Exportation), and Article X (Publication and Administration of Trade Regulations)

the near future. Moreover, a political hurdle also arose: the emergence of the groups of developing countries (G20, G33 and G90) pushed the WTO to a multi-polar direction. Thus, the EU and US could not dominate the institution anymore.

However, at the Hongkong Ministerial Conference in 2005, the members could agree in a couple of issues such as commitments to eliminate the export subsidy programs on agricultural products by 2013, agreement to extend duty-free and quota-free access on 97 percent or more of industrial countries' tariff lines to developing countries (a commitment that was relatively easier for the EU to meet given its existing non-reciprocal preference regimes[40]), and commitments totaling more than U.S. $10 billion on to be specified "Aid for Trade" programs for developing countries, the divergence regarding the barriers of agricultural trade (mostly the issues of farming subsidies and lowering tariffs) did not narrow. While its trading partners kept pushing the EU into the direction of a more ambitious offer, *a group of EU member state made it clear that they oppose to expand the EC's negotiating mandate on agricultural matters beyond the CAP reforms agreed in 2003*.

Thus, by the time of the issuance of Global Europe, due to the abovementioned external and internal difficulties (emergence of new trading powers, lack of support from some EU member states to liberalize agriculture), the hopes for multilateral liberalization seemed to fade away.

V. Political Economy of the European Trade Policy

The European Union is an extremely complex and unique phenomenon in human history. Although *it consists of 27 sovereign states*, over the past 50 years it has enhanced and improved its overall administrative competence in several different fields of policymaking, to the extent that it has increasingly shown the characteristics of a single state. Hence, at each decision-making level, several stakeholders are involved and the final act is usually passed after a complicated internal negotiation process. If one wants to understand the reasons and interests behind a shift in European trade policy, one should study the political economy vis-a-vis European trade policy. The main stakeholders are the *European Commission*; the *European Parliament* and its political parties; the *Member States*

[40] Evenett, 2007,page 27

themselves; the *European Council* where they are represented; the *Member State presiding over the EU* in its rotating presidency; and of course *the industries and lobbying groups* with a vested interest in trade policy.

The legal basis of the European Trade Policy is Article 133 of the EU Treaty[41]. Paragraph 1 of Article 133 stipulates that *"The common commercial policy shall be based on uniform principles, particularly in regard to changes in tariff rates, the conclusion of tariff and trade agreements, the achievement of uniformity in measures of liberalization, export policy and measures to protect trade such as those to be taken in the event of dumping or subsidies."* This basically means that what applies in one country should apply in all the others, as well. This principle comes from the nature of the customs union and establishes the trade policy of the EU as perhaps its most centralized policy field. This approach is further reflected in paragraph 2 and 3, which give the Commission the right of initiative as far as trade negotiations are concerned and entitle it to conduct negotiations with other countries and international organizations. Nevertheless, the Council, which consists of representatives of the Member States, gives a mandate to the Commission to open trade negotiations, requiring that the Commission report regularly on the progress. Once the negotiations are finalized, the Council acts according to the will of a qualified majority.

Before the Commission would bring a case in front of the Council, it debates the issue on the meetings of the Advisory Committee. In case of the Trade Policy, the most influential advisory committee is the Rules of Origin committee which belongs to Directorate General Taxation and Customs Union. It is the forum where the Member States can express their opinion and the Commission is able to receive a feedback from its negotiations. The working method of this committee is very interesting as, however, the members of this committee are usually mid-level officers of the national governments and they must represent the official position of their government, they are also specialist on their fields therefore *the Commission try to convince them* with professional arguments and pass its message through them to the higher-level representatives of the Council, especially in the sensitive issues. Obviously, it goes vice versa, as well. The main reason is that

[41] Nice consolidated version

typically the records of deliberations in these advisory groups or committees are not made public[42] and therefore both sides (the Commission and the Member States) can *express its views freely* as they do not have to worry from the reaction of the national or European public. Nevertheless, as the negotiating power of the representatives of this group is limited, not every issue can be solved on this level. These questions of the European trade policy are decided in the *Article 133 Committee* (after the Lisbon Treaty had gone into force it was renamed Trade Policy Committee) where representative of the Member States are delegated.

The *Lisbon Treaty* which has already been ratified by every EU member state and has been in force from 1 December 2009, changes the decision-making regarding FTAs, the main actors remain the Commission and the Council, though. With the Lisbon Treaty, there will no longer be a requirement for agreements to be ratified by national parliaments. On the other hand, the European Parliament *enhances its role* by exercising more scrutiny during the negotiations. On its face, it looks like a loss of parliamentary control but in practice few Member State parliaments have exercised effective scrutiny of EU trade policy. Thus, an effective scrutiny made by the European Parliament may lead *the politicization the current „technocratic" trade policy*.[43]

While sofar the there will be no more shared competence and thus no more mixed agreements in trade. All trade will be European Union competence and agreements will be ratified by the EU.

The attention of scholars of international political economy has turned recently towards the question *〞who governs〞* the European trade policy. The opinions are split among three different groups. The first group is the *pluralist* who focuses on the role of interest groups (in particular business). The second group is the *intergovernmentalists* who attribute dominance to the leading trading nations and the third one is the group of *supranationalists* who believes that the Commission is the most powerful actor.[44]

According to the opinion of some influential trade scholars, the shift of the European trade

[42] Evenett, 2007, page 7
[43] Woolcock, 2009, page 5
[44] Elsig 2009, page 2

policy does not represent the economic interest of the European industry and the Commission's acting is based on the search for *short-term priorities and mercantilist interest*[45]. They also refer to the hostile sentiments of the civil society towards liberalization which keeps the policymakers away from strategic decisions. This opinion is largely based by the *collusive delegation argument* which claims that basically states that delegating trade policy to a higher level of government reduces the influence of special interests. Are they right or by contrary, EU is acting just in accordance with the interest of the European business? In order to decide this question, it is worth to review the amendments of EU's trade policy stance since the beginning of the Doha Round.

Most European business interests welcomed and supported the EU's negotiating agenda. On European level, the Union of Industrials and Employer's Confederation of Europe (UNICE) and the European Roundtable of Industrialists hoped for a single agreement concluded in the Doha Round which was in accordance with the opinion of the associations of the big trading nations (Federation of German Industry, Confederation of British Industry, Movement of French Enterprises, General Federation of Italian Industry, Spanish Employer's Confederation). The EuroCommerce and the Foreign Trade Association which groups comprised the retailers and traders also sympathized with EC's position.[46]

As major European economies have been becoming more and more service-orientated and the trade of services has not really been liberalized on WTO level, it is no wonder why European service industry strongly backed EC's effort to put the Singapore issues into the Doha negotiating table. Trade facilitation is also lukewarmly supported by big business groups such as the Foreign Trade Association, The European Round Table of Industrialists, the chemical industry and the European Information and Communication Technology Industry Association.[47]

Nevertheless, the EU consistently fought for the inclusion of the Singapore issues into a Single Undertaking, it also tried to represent protectionist interests requested by certain industries, especially the audiovisual part of service sector and the automobile industry. In the agricultural sector, the position of farmers and the service sector significantly differ. While farmers are against further

[45] Evenett, 2007, Messerlin, 2007
[46] Dur, page 12-13
[47] ibid., page 13

liberalization, the service sector which is keen on entering new markets considers agriculture as *″bargaining chip″*.[48] Nevertheless, agriculture lobby was strong enough to push the EC towards a hard position in the WTO negotiations which finally contributed to the collapse of the Round.

The lobbying system of the European industry is twofold. Lobby groups interact with the Commission on European level and at the same time with ministries on national level.[49] They use a *″two-channel strategy″*[50] which means that they refer to the impact on trade measures on national policies such as unemployment when they lobby in the ministry while they shift their position to the protection of EU interest at the Commission's table. Yet, the weight of the lobbyist might be different on different levels. As national governments are directly elected by the people, they tend to pay more attention to the opinion of associations comprising small-scale firms or producing firms employing lot of workers, by contrary the Commission whose mandate is not challenged by the public rather relies on the influence of large, multinational companies. It necessarily leads to that fact that *Commission is thought to be more liberal* than the majority of the Member States.

The Member States are also important stakeholders due to their veto right in the decision-making process. Naturally, opinions change but a large dissent between *„protectionist″* and *„liberal″* countries could be observed. Moreover, the enlargements of 2004 and 2007 which increased the number of Member States by 12, made the picture more complex. This dissent is illustrated with two examples during the negotiations of Doha Round. In 2005, trade ministers of 14 Member States signed a letter in which they intend to remind the Commission not to make more agricultural concessions in the negotiations. It stated that *″the time has come to confirm that the European Union does not intend on being alone in making concessions, and to obtain parallelism of effort defined in the mandate and supplemented by the Geneva framework agreement of 2004"*. This letter was signed initially by ministers from France, Austria, Belgium, Cyprus, Spain, Finland, Greece, Hungary,

48 Dür, 2007, page 15
49 Elsig, 2009, page 15
50 ibid.

Ireland, Italy, Lithuania, Luxembourg, and Poland. Portugal signed the letter later.[51]

On the other hand, On 14 July 2008, six European ministers responsible for trade called in an open letter for the EU to live up to its responsibility and push for a Doha trade deal.1 The letter was signed by so-called liberal Member States, indicating a split within the EU on the degree of concessions to be made (mainly on agriculture) and the importance of opening markets through the use of the multilateral trading regime. The signatories were Czech Republic, Slovenia, Estonia, Latvia, UK and Sweden.[52]

To sum it up, the European trade policy is based on *compromises* between the interest of the export-orientated industries (services, real estate, etc.) and the interest of the sectors which rather concentrates on the European market (mainly agriculture). Due to the lobbying on national level, this duality also reflects the division of the Council into "liberal" or "protectionist" Member States.

VI. European interest in Asia

Today Asia is the *most dynamic continent* in the world. Over the last 20 years, the contribution of Asia to global trade has increased substantially, notably its exports. From about 16% of global exports in 1980, this share climbed to about 27% in 2005.[53] The trade relations between the EU and the potential FTA partner economies have also shown an increasing trend. Currently, the EU is India's first and ASEAN's third biggest trading partner and also Korea's second largest export market.

As a corollary, there is no doubt that the EU should be present in the region. This statement is valid not only for trade but also for the political sphere. Nevertheless, in the case of the East Asian (Korea and ASEAN) partners, the features and motivations are quite different from the Indian case.

If one takes a look at the politics of the East Asian region over the past few decades, it can witness a *large American influence* in many countries (especially Korea, Japan and Taiwan) supported by the presence of US troops and bilateral security arguments. While Europe has never been a colonial power in the North East Asian region, it had a large impact on the development of the South

51 Inside US Trade, 2005
52 International Herald Tribune, 2008
53 Hofstra University website – Share of Asia in World Trade, 1980-2005

East Asian nation until the end of World War II. Cambodia and Vietnam were French colonies, Malaysia and Singapore belonged to the British Empire and Indonesia was ruled by the Dutch. And yet, by contrary to Africa or America where most of the countries are still bound to their colonizers in many ways, the European influence has decreased to a large extent after the end of colonial era in the South East Asian region.[54] India is different in this aspect as it kept its strong relationship with the former colonizer UK even after gaining independence in 1947. This relationship is supported by the facts that English is the official language and the UK is India's main trading partner.

Another aspect which Europe should keep in mind is the rise of regionalization in East Asia. ASEAN intends to achieve an European-style integration by 2015 and the establishment of an East Asian Community is also on the horizon. In the meantime, a proliferation of FTAs has been going in the continent. According to the Asian Development Bank (ADB), the number of free-trade agreements (FTAs) signed by Asian countries has grown from just three in 2000 to 56 by the end of August.[55] The United States has signed an FTA with Korea (it has not ratified yet, though), China is building a hub-and-spoke system in Asia, Australia is signing bilateral agreements all over Asia and Malaysia and Thailand had been negotiating a free trade agreement with the United States until recently.

Consequently, EU claims as its priority that the emerging East Asian regionalism is an *"open and inclusive"* one, where cooperation within does not limit engagement with the outside world.[56] The fear from the exclusion effect is perhaps the strongest in the case of ASEAN as it has already concluded agreements with Australia, China, Korea and Japan and the US is also getting more engaged in the region by concluding FTAs with individual countries[57].

According to recent report[58], the EU has lost significant market share in some of the most fast-growing markets, particularly in Asia. As a corollary, this underperformance could undermine EU's share in international trade. Moreover, there is a rapidly growing trade deficit with Korea[59] while the deficit has increased with ASEAN it still accounts 15% of the whole EU trade deficit, though. By

[54] Jing Men, 2009
[55] Time, 2009
[56] Willem 2005, page 3
[57] US-Singapore FTA (2003), Malaysia and Thailand have been in talks with the US
[58] http://www.eubusiness.com
59 Between 2000 and 2008 EU27 trade in goods with South Korea grew by around 50%, with EU27 exports to South Korea rising to 26 billion euro in 2008 compared with 17 bn in 2000, and imports rising to 39 bn from 27 bn. As a result, the EU27 trade deficit with South Korea increased from 10 bn in 2000 to 14 bn in 2008. (http://epp.eurostat.ec.europa.eu)

contrary, EU has a surplus with India.

Asian markets are *still highly regulated* therefore there is lot to be gained for European business, especially for the service sector[60]. Protection takes the form of numerous non-tariff barriers and restrictions on services and foreign direct investments. Therefore, companies operating in banking, infrastructure and telecommunication sectors all have a lot of potential in Asia. The EU seeks removal of regulations pertaining to bank branches, numerical quotas, foreign ownership, equity ceilings, voting rights and investment by state-owned companies in foreign banks. Retailers from Europe such as Tesco or Wal-Mart are also eager to provide catering for India's growing middle class.[61] Manufacturing industry is also keen on the FTAs due to a growing trend of company intra-trade: European-based companies produce goods in Asia which are imported back to the EU later.

Besides the *economical gains*, there are also important *political motives*. India is one of the leaders of the developing countries in the WTO as the member of the G4 group (Brazil, China, India and South Africa). Having concluded a comprehensive FTA with it, would enhance the EU leverage in the Doha Round to effectively push its agenda. Korea has also been increasing its role in the international diplomacy as it chairs the G-20 meetings of Finance Ministers and Governors in 2009. EU hopes to gain their support to its priority goals such as the struggle against climate change and dealing with the financial crisis.

On the other hand, EU policymakers should bear not only the material outcome of the future agreements in their mind and do not sacrifice long-term and comprehensive gains for it. Most of the population of some of the ASEAN countries and especially India still live in miserable conditions. The 8-10% growth of the GDP is due to the massive development of a few sectors but the economies themselves are still vulnerable. Despite robust economic growth, India continues to face many major problems. The recent economic development has widened the economic inequality across the country. Although the high economic growth rate has been sustained, approximately 80% of its population lives on less than $2 a day (PPP). Even though the arrival of Green Revolution brought end to famines in India, 40% of children under the age of three are underweight and a third of all men and women

60 EU services trade with Asian countries is very low compared with goods of trade.60
61 http://globalconditions.wordpress.com

suffer from chronic energy deficiency. Finally, the GDP/capita of the EU exceeds almost 30 times the Indian number.[62]

According to Section 8, b of GATT: Article XXIV, “A free-trade area shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated on *substantially all the trade* between the constituent territories in products originating in such territories”. “Substantially all trade” basically means that more than 90% of the tariff lines should be eliminated to fulfill these criteria. Although in case of the EU-India FTA, the officials from both sides pledged very comprehensive agreement given the resistance of the civil society and many industries this script does not seem very likely. In this case, a legal problem would arise as besides Article XXIV the EU does not have any other legal option to conclude an FTA in the current WTO legal system. On the other hand, given the huge number of FTAs in which the liberalization does not exceed this threshold and the fact that never in the history of the GATT or WTO has a country brought another to dispute based on the perception that the country had not liberalized ‘substantially all trade’ in an RTA.

The growing number of FTAs between developed and developing countries revealed the *necessity to amend Article XXIV*. The liberalization of “substantially all trade” refers only to the tariff lines and *does not imply the subsidies* used by especially developed countries. By contrast with GATS V which stipulates the trade of services it does not include a Special and Differential Treatment Clause. However, the legal troubles might be minor comparing to the problems concerning development.

Thus, liberalizing substantially all trade may lead to the *collapse of some industries and the agricultural sector*. Exports in a small number of sectors in developing countries might even increase. However, on the whole, the more competitive industries in the developed countries are likely to benefit much more by such a reciprocal trading arrangement. This could lead to import surges into developing countries, deindustrialization and the displacement of small farmers and consequently an

[62] www.wikipedia.org

increase in both rural and urban unemployment. As many developing countries still depend heavily on tariff revenues, the elimination of duties would drastically cut down the source of revenues. It could have serious impact on the development of health care, education and essential infrastructure.[63]

Therefore, the relaxation of rules is recommended for developing countries which could be achieved via demanding *"less than full reciprocity"* in their case. The definition of *"other restrictive regulations of commerce"* will have to be interpreted in a flexible manner for developing countries, so that developing countries can apply protection measures including safeguards and other non-tariff measures (e.g. rules of origin) on intra-regional trade. The promotion of the development can also be made through rules of origin which favors the more skilled working processes. Reasonable length of time given for the elimination of tariffs in the agreements should also be understood in the countries' development process.[64]

Table: RTAs of the trade hubs in South and East Asia (dates show entry into force of the agreements)

	European Union	United States	China	Japan
Korea	Under Negotiation	30.07.2007 (Goods – Signed)		Under negotiation
ASEAN	Under Negotiation		01.01.2005 (Goods) 01.07.2007 (Services)	01.12.2008 (Goods)
Singapore	Under Negotiation	01.01.2004 (Goods & Services)	01.01.2009 (Goods & Services)	02.11.2002 (Goods & Services)
Thailand		Under Negotiation		01.11.2007 (Goods & Services)
Indonesia				01.07.2008 (Goods & Services)
Philippines				11.12.2008 (Goods & Services)
Malaysia		Under negotiation		13.07.2006 (Goods & Services)
Vietnam				01.10.2009 (Goods & Services)
Brunei Darussalam				31.07.2008 (Goods & Services)
India	Under Negotiation			Under negotiation
Pakistan			21.02.2009 (Goods	

63 South Centre, 2008, page 8

64 ibid. page 28-29

			& Services)	

VII. Conclusion

Reviewing the current history of EU trade policy, a *shift from multilateralism to bilateralism* accompanied with a *trade-based approach* replacing the former *development-and enlargement-based approach* seems to prevail. Nevertheless, this reason of this shift *cannot be found in the change of the political economy* of the EU trade policy *but rather in the change of the environment*. Although, there is still some hope for a successful finish of the Doha Round, it is likely that the EU cannot enforce its priorities (policies on trade as they relate to investment and competition, as well as transparency in government procurement and facilitation of trade) on a multilateral level *without providing considerable concessions in agriculture*.

As it was analyzed in Chapter V, however, the European Commission is not directly elected by the citizens it is *highly influenced by export-orientated lobby groups* which push him towards a liberalization agenda related to their interest. On the other hand, agricultural lobby manages to turn the Council consisted of national policymakers into a protectionist direction in case of the import-orientated sectors. The shift to Asia is also driven by these influential forces. The frustration occurred from the failure of the Doha Round lead the prominent of European business to try to enter new markets by means of WTO-plus bilaterals. As Asia is *the only continent which has not covered with trade agreements*, moreover its countries still apply high regulatory barriers it seems a perfect decision to find new trading partners. Furthermore, even if the Round concludes successfully, the EU might go further ahead in FTAs with equally developed partners such as Korea or Singapore.

It seems that the *world of trade is going to a multi-polar direction* with the emergence of *new hubs* (China, India, Brazil and even Russia does have its potential). Competition between these hubs has been increasing as it is illustrated with the latest "trade war" between US and China. As WTO has played a crucial role to increase free trade around the world, it created a system where even minor advantages might matter a lot. Thus, it *indirectly contributed to the proliferation of FTAs*. This piece claims that this trend will continue at least in the near future.

In spite of the rapid growth in many developing countries, the development is *fragmented and the welfare distribution is far from equal*. There is a fear of many that further liberalization widens the gap between rich and poor both in a national and also in a supranational level. Therefore, the EU as one of the leaders of world trade should not forget about the *development aspect even* in the abovementioned fight for markets and take the leadership in creating a modernized and fairer trade system. As total liberalization generally goes with incremental damages and therefore collides with the resistance of the civil society, policy makers should come up with new ideas of trade facilitation such as flexible and development-friendly rules of origin or the amendment of WTO agreement.

Finally, we can claim that the strong relationship between business and policy-makers is the key of the relative flexibility and practicality of European trade policy. However, it makes the EU effective player in the world market, it also causes some drawbacks. Partly due to the *lack of transparency*, some groups have comparatively too large influence while the groups articulating diffuse interest (NGOs, smaller-scale companies) have a very limited impact on the decision-makers which contributes to the shortage of democracy in the decision-making. Furthermore, it also contributes to the tendency that the *EU offer concessions in the so-called "defensive" areas for gains in the "offensive" ones and treat them as a "package"*. The question is arisen whether the increased power of European Parliament by the Lisbon Treaty will move the ″technocratic″ European trade policy to a *broader-based, more democratic direction* which takes the needs of the different sectors of the economy into account on an equal basis.

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